

Message Text

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PAGE 01 ROME 11331 191933Z
ACTION EUR-12

INFO OCT-01 ISO-00 FRB-01 EB-08 AGR-05 CEA-01 CIAE-00
COME-00 DODE-00 H-02 INR-10 INT-05 L-03 LAB-04
NSAE-00 NSC-05 PA-02 CTME-00 AID-05 SS-15 STR-07
ITC-01 ICA-20 SP-02 SOE-02 OMB-01 DOE-15 /127 W
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R 101605Z JUN 78
FM AMEMBASSY ROME
TO SECSTATE WASHDC 3652
TREASURY DEPT WASHDC

UNCLAS ROME 11331

PASS FRB

E.O. 11652: N/A
TAGS: EFIN IT
SUBJ: FURTHER DISMANTLING OF LIRA PROTECTIVE MEASURE

REF: 1977 ROME 9533

1. EFFECTIVE JUNE 19 THE REQUIREMENT THAT ITALIAN EXPORTERS
FINANCE OFFSHORE 25 PERCENT OF SHORT-TERM EXPORT CREDITS IS
ELIMINATED. THE PERCENTAGE REQUIREMENT WAS INTRODUCED IN MAY
1976 AT 30 PERCENT AND THEN RAISED TO 50 PERCENT IN OCTOBER 1976
AN AN EMERGENCY MEASURE TO STABILIZE THE LIRA. IT WAS REDUCED
TO 25 PERCENT IN JUNE 1977, WHERE IT REMAINED TO DATE, AFTER THE
ITALIAN BALANCE OF PAYMENTS HAD MOVED INTO SURPLUS AND THE LIRA
STABILIZED.

2. THE SUPPRESSION OF THIS ADMINISTRATIVE REQUIREMENT SHOULD
HAVE NO PRACTICAL SIGNIFICANCE SINCE ITALIAN EXPORTERS HAVE
BEEN FINANCING SUBSTANTIALLY MORE THAN THE REQUIRED PERCENTAGE
OF THEIR SHORT-TERM EXPORT CREDITS IN FOREIGN EXCHANGE (ABOUT
70 PERCENT) BECAUSE OF THE STRONG FAVORABLE INTEREST RATE DIFFERENTIAL
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TO DO SO AND EXPECTATIONS OF RELATIVELY STABLE LIRA OVER THE NEAR
TERM. A GROWING PERCENTAGE OF SUCH OFFSHORE FINANCING HAS BEEN
IN DOLLARS. BETWEEN THE FOURTH QUARTER OF 1976 AND THE FOURTH
QUARTER OF 1977 THE AVERAGE STOCK OUTSTANDING OF ITALIAN EXPORT
CREDITS FINANCED IN FOREIGN EXCHANGE INCREASED BY 75 PERCENT,
OF WHICH THE PERCENTAGE IN DOLLARS ROSE FROM 50 TO 63 PERCENT;
THE INTEREST RATE DIFFERENTIAL FAVORING BORROWING ABROAD AVERAGED

ABOUT 8 PERCENTAGE POINTS DURING THE PERIOD.

3. THE UNDERLYING MARKET INCENTIVES FOR ITALIANS TO BORROW
ABROAD RATHER THAN DOMESTICALLY ARE EXPECTED TO CONTINUE AT
LEAST THROUGH THE SEASONALLY STRONG PERIOD (I.E. THROUGH SEPTEMBER)
AND SO, THE SUPPRESSION OF THE 25 PERCENT FINANCING REQUIREMENT WAS
A MERE ADMINISTRATIVE FORMALITY. GARDNER

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NNN

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